

DEPARTMENT OF FINANCIAL INSTITUTIONS
MINUTES OF MEETING
MARCH 11, 1999

The Members of the Department of Financial Institutions met at 9:00 a.m., EST, at 402 West Washington Street, Room W-066, Indianapolis, Indiana, on Thursday, March 11, 1999. Members present were Norman Lowery, Chairman; Tony Zaleski, Ronald E. Depasse, Loretta M. Burd and James L. Saner. Also present from the Department were Charles W. Phillips, Director; J. Philip Goddard, Chief Counsel, Deputy Director, Non-Depository Institutions and Secretary; James M. Cooper, Deputy Director, Depository Division; Kirk J. Schreiber, Senior Bank Analyst; Mark K. Powell, Supervisor, Credit Union Division; Mark B. Tarpey, Division Supervisor, Consumer Credit Division and Ronda Bailey, Administrative Secretary. Members David D. Baer and Gary M. Smith were absent.

1. PUBLIC SESSION

A.) Attendance

B.) Date of next meeting: April 8, 1999, at 9:00 a.m., EST.

C.) A motion was made for approval of the minutes of the meeting held February 11, 1999, by Mrs. Loretta Burd and was seconded by Mr. James Saner. The minutes were unanimously approved.

DIVISION OF BANK AND TRUST COMPANIES

A.) First Financial Bancorp, Hamilton, Butler County, Indiana

Mr. Kirk J. Schreiber, Senior Bank Analyst, presented this application. First Financial Bancorp ("First Financial") has applied to the Members of the Department, pursuant to IC 28-2-16, for approval to acquire 100% control of Sand Ridge Financial Corporation, ("SRFC"), Highland, Lake County, Indiana, and thereby acquire its wholly-owned bank subsidiary Sand Ridge Bank ("Sand Ridge"), Highland, Lake County, Indiana.

Upon consummation of the proposed transaction Sand Ridge will continue to exist as a separate entity and will conduct business as a wholly-owned subsidiary of First Financial. The proposed transaction consists of an exchange ratio of approximately 85.25 shares of First Financial common stock for each of the issued and outstanding shares of SRFC common stock. First Financial will own all 60,000 issued and outstanding common stock shares of SRFC. Based upon the anticipated number of issued and outstanding shares of SRFC and the

exchange ratio, First Financial anticipates issuing up to a maximum of approximately

5,115,000 shares. SRFC's book value as of September 30, was \$746.13. This represents a purchase price premium of \$1,257.25 or 2.69x book value.

Mr. Schreiber reported that the pro forma combined financial statements as of September 30, 1998, reflect a tier one leverage capital ratio of 9.04% for First Financial. Pro forma total assets for the same date were \$3.4 billion and total equity capital of \$359 million. The Federal Reserve Bank of Cleveland is expected to approve this application on March 12, 1999.

Mr. Schreiber stated that it is the opinion of the Department staff that the statutory requirements set forth in IC 28-2-16-17(e) have been satisfactorily met and approval is recommended.

A motion for approval of the application was made by Mr. Saner and seconded by Mrs. Burd. **The application was unanimously approved.**

B.) Pendleton Banking Company, Pendleton, Madison County, Indiana

Mr. Kirk J. Schreiber, Senior Bank Analyst, presented this application. Pendleton Banking Company ("Pendleton Banking") has applied to the Members of the Department for approval to merge with Anderson Community Bank, Anderson, Madison County, Indiana ("Anderson Community") pursuant to IC 28-1-7. Pendleton Banking will survive the merger. The name of the resulting institution will be The Madison Community Bank. Immediately prior to the merger First Merchants Corporation, Muncie Delaware County, Indiana ("First Merchants") will directly acquire Anderson Community.

As a result of the merger Anderson Community's main office will be established as the main office of the resultant institution. The main office of Pendleton Banking and branches of Pendleton Banking and Anderson Community are to be operated as branches of the resultant institution.

On a pro forma basis as of December 31, 1998, the resulting bank will have an adequate tier one capital ratio of 11.06%. On a pro forma basis, land and buildings represents 13.28% of sound capital. The investment in total fixed assets represents 10% of total capital. The three year average ROA for Pendleton Banking is 1.67% and the three year average ROA for Anderson Community is 1.07%.

First Merchants received a satisfactory BOPEC rating from the Federal Reserve Bank of Chicago at their most recent bank holding company inspection of March 31, 1998. Both Pendleton Banking and Anderson Community received satisfactory CAMELS and CRA ratings at their most recent examinations.

With respect to the management of the resultant bank: 1) The board of directors of Anderson Community will join the board of directors of Pendleton Banking to form the board of

directors of resultant bank; 2) Michael Baker, President of Anderson Community will become President and CEO of resultant bank; 3) Norman Locke, President of Pendleton

Banking will move to another First Merchants affiliate; and 4) All other officers and employees of Pendleton Banking and Anderson Community will be offered employment with resultant bank.

The FDIC is expected to approve the merger by April 1, 1999.

The staff recommends approval of the merger.

After a brief discussion, a motion for approval of the merger application was made by Mr. Depasse and seconded by Mr. Zaleski. **The application was unanimously approved.**

CREDIT UNION DIVISION

A.) Business & Industrial Federal Credit Union, Columbus, Bartholomew County, Indiana

This application was presented by Mark K. Powell, Supervisor, Credit Union Division. Business & Industrial Federal Credit Union (BIFCU) has applied to the Members of the Department of Financial Institutions for approval of their proposed merger of Golden Foundry Employees Credit Union (GFECU), Columbus, Bartholomew County, Indiana into Business & Industrial Federal Credit Union. This is a voluntary merger by the Board of Directors of GFECU in their efforts to maintain profitability and to provide their membership with more expansive services provided by BIFCU.

Mr. Powell explained to the Members that the profitability problems at GFECU were created by their decision to build a new credit union office. This increased their fixed asset to total asset ratio to approximately 15% or three times the legal limit. Mr. Powell further explained that this building was completed without the knowledge or the approval of the Department. Mrs. Burd inquired about the increased delinquency at GFECU and whether BIFCU could sustain that increase to their delinquency. Mr. Powell replied that the increase has been created by firings at Golden Foundry and that BIFCU felt there were collection opportunities. Mr. Powell pointed out that GFECU had sizeable reserves.

Mr. Zaleski inquired as to how this happened and what could be done to prevent it from happening in the future. Mr. Powell replied that the fixed asset limits and the application and approval process is quite clear in the statutes. However; the Board of Directors of GFECU were not aware of them. They felt that a new building would be good for GFECU so they built it. Mr. Powell further stated that all of the building was done between on-site Department examinations. Mr. Phillips inquired as to what action was taken against the Board of GFECU. Mr. Powell stated that an MOU had been issued restricting and improving a number of areas. Mr. Powell further stated that selling the building was not an option

because GFECU still had to have somewhere to conduct business. Mr. Zaleski asked if the Department could prevent this type of situation in the future. Mr. Powell stated that he didn't know. He also re-emphasized that in his opinion the law is very clear as to fixed asset

limitations and the approvals that must be obtained prior to any building being done. Mr. Phillips opined that the Department could have replaced the entire Board and Management of GFECU. However, this would probably cause the merger to take place two years sooner.

Mrs. Burd inquired whether the current Manager was present when these decisions were made. Mr. Powell replied that she was. Mrs. Burd then inquired as to whether the managers were still on the Board. Mr. Powell said he was no longer on the Board. Mrs. Burd then inquired whether the current Manager was going to remain with the surviving credit union and whether the current GFECU location was going to be a branch of BIFCU. Mr. Powell replied that the manager was going to remain with the continuing credit union and the GFECU location would be operated as a branch of BIFCU.

Mr. Saner stated that Management failed in analyzing what would happen to GFECU after the new building was built. He then asked if the Department was aware of how weak the Management of GFECU was. Mr. Powell emphasized it is an extremely small credit union and the Department had been aware of the management's limitations at GFECU. Mr. Powell stated that Management had done a good job in the past. However; they did not understand the effect that the new building would have on the balance sheet of GFECU.

Mrs. Burd stated that since her credit union was also located in Columbus they had tried to help GFECU. However; GFECU became suspicious that Mrs. Burd's credit union was only interested in helping in an effort to acquire them. Mr. Phillips then stated that historically fixed asset ratios in credit unions have been based on total assets rather than on capital as in banking law. Mr. Saner then asked if a sale of the GFECU building had been considered. Mr. Powell said it was not feasible. Mr. Phillips inquired what the core employee group was for GFECU. Mr. Powell replied that the only employee group in the membership of GFECU was the employees of Golden Foundry. Mr. Phillips then inquired if the ownership of Golden Foundry had been approached about helping GFECU. Mr. Powell replied that relations between ownership and GFECU were not such that this help would have been possible. Mr. Saner then asked if Mr. Powell was sure this merger would not harm BIFCUB. Mr. Powell stated that he felt the merger would not harm BIFCU.

Mrs. Burd made a motion for approval which was seconded by Mr. Saner. The motion to approve the voluntary merger of Golden Foundry Employees Credit Union into Business & Industrial Federal Credit Union was unanimously approved.

DIRECTOR'S COMMENTS AND REQUESTS

- A.) Director Phillips and Legal Counsel J. Philip Goddard updated the Members on current legislation issues.

- B.) Director Charles Phillips advised the Members of actions pursuant to delegated authority. Mr. Phillips asked for any questions or clarifications of the actions, which are as follows:

DIVISION OF BANK AND TRUST COMPANIES

1.) **STAR FINANCIAL BANK, ANDERSON, MADISON COUNTY, INDIANA**

The bank has applied for approval to open a branch banking office to be located at **127 West Berry Street, Fort Wayne, Allen County, Indiana**. The application was received on February 9, 1999. The branch will be known as **Downtown Fort Wayne**. No insider relationship exists between any insiders of the bank and any of the parties involved. The bank is proposing to lease the first floor of the office building, containing approximately 10,000 square feet, commonly known as the Commerce Building, Fort Wayne, Indiana, and the ground adjacent to the office building to the west for a drive-through. The rent for the first floor office is \$100,000, payable in monthly payments of \$8,333.33. The rent increases \$10,000 per year during the 2nd, 3rd, 4th, and 5th years. Rents for the 6th through 15th years are to be negotiated according to the terms of the lease. The bank will pay \$27,000 per year, payable in monthly installments of \$2,250, for the drive-through facility for the 15-year term of the lease. The lease provides for two (2) successive renewal options of five (5) years each. The bank will lease both locations from Commerce Building, LLC.

Leasehold improvements are projected to be \$250,000. Furniture, fixtures, and equipment are estimated at \$225,000. The bank received a satisfactory CAMELS rating as a result of an examination conducted by the FDIC as of December 31, 1997. The bank's three-year average ROA is 0.91%. As of September 30, 1998, the Tier I leverage capital ratio is 7.75%.

The investment

in total fixed assets to total capital will increase from 20.61% before the proposed branch to 21.17% following the establishment of the branch. **The Director approved the on February 12, 1999, under Delegated Authority.**

2.) **CAMPBELL & FRETTER BANK, KENDALLVILLE, NOBLE COUNTY, INDIANA**

The bank has applied to the Department for approval to establish a courier service to be operated out of the main office located at **126 South Orchard Street, Kendallville, Noble County, Indiana**. The application was received on January 28, 1999. No insider relationship exists between any insiders of the bank and any of the parties involved. The bank currently has couriers who service the bank's branches in DeKalb, Stueben, Kosciuko, Elkart, and Noble counties. The bank is proposing to extend the courier service into Allen County as part of the daily runs to pick up check deposits from commercial loan customers, primarily manufacturing firms. The service will not involve currency either picked up or delivered with the exception of petty cash orders less than \$100.00. The deposits will be picked up in locked bags and the courier and customer will sign a log verifying the number of bags. The contents of the bag will be verified once the courier delivers the bags to the

main office. There are no additional expenditures anticipated for this service. The bank received a satisfactory CAMELS rating as a result of a joint examination conducted by the FDIC and DFI as of December 31, 1997. The bank's three-year average ROA is 1.07%. As of September 30, 1998, the Tier 1 leverage capital ratio is 7.92%. **The Director approved this on February 12, 1999, under Delegated Authority.**

3.) **FIRST COMMUNITY BANK & TRUST, BARGERSVILLE, JOHNSON COUNTY, INDIANA**

The bank has applied to the Department for approval to establish a branch banking office to be located at **989 North US Highway 31, Whiteland, Johnson County, Indiana**. The application was received on December 18, 1998, and the branch is to be known as **Whiteland Branch**. No insider relationship exists between any insiders of the bank and any of the parties involved. The proposed branch is a 2,550 square foot branch banking facility. The bank purchased the land and building from Convenience Centers, LLC, Greenwood, Indiana for \$243M. It is estimated there will be \$100M additional costs to convert the building into a branching facility. The estimated cost for furniture, fixtures, and equipment is \$72M. The bank received a satisfactory CAMELS rating as a result of an examination conducted by the DFI as of March 31, 1998. The bank's three-year average ROA is 0.64%. As of September 30, 1998, the Tier 1 leverage capital ratio is 7.72%. The investment in total fixed assets to total capital will increase from 22.66% before the proposed branch to 27.34% after the investment in the branch. This will be the institution's eighth branch. **The Director approved this on February 12, 1999, under Delegated Authority.**

4.) **FIRST STATE BANK OF MIDDLEBURY, MIDDLEBURY, ELKHART COUNTY, INDIANA**

The bank has applied for approval to open a branch banking office to be located at 54426 Cobblestone Crossing, Elkhart, Elkhart County, Indiana. The application was received on February 10, 1999. The branch will be known as Cobblestone Crossing Office. Crystal Valley Financial Corporation, a one-bank holding company that owns 100% of the bank, will acquire the land and construct the branch facility. The bank will lease the facility from Crystal Valley Financial Corporation. The holding company will purchase the land from National City Bank for \$315M. The projected cost to construct the facility, including equipment such as the vault and security system, is \$635M. The lease will be based upon the actual cost of the land and building. It is anticipated that the monthly lease expense will be \$8,400. According to President James Hiatt, the lease term will be for 10 years and provide for several renewal options. The facility will consist of approximately 2,400 square feet. Leasehold improvements are projected to be \$20,000. Furniture, fixtures, and equipment are estimated at \$120,000. The bank received a satisfactory CAMELS rating as a result of a joint examination conducted by the FDIC and DFI as of December 31, 1997. The bank's three-year average ROA is 1.25%. As of September 30, 1998, the Tier I leverage capital ratio is 7.81%.

The investment in total fixed assets to total capital will increase from 12.04% before the proposed branch to 12.89% following the establishment of the branch. This will be the institution's third branch. **The Director approved this on February 26, 1999, under**

Delegated Authority.

5.) **UNITED SOUTHWEST BANK, WASHINGTON, DAVIESS COUNTY, INDIANA**

The bank has applied to the Department for approval to pay dividends in excess of what is permitted by IC 28-13-4-3. The bank's dividend request asks approval to pay cash dividends not to exceed \$3,848,000 in 1999 to its holding company, Old National Bancorp, Evansville, Indiana. The bank is projecting net income of \$2,745,000 for 1999. As of September 30, 1998, the bank's Tier I leverage capital ratio is 8.48%. It is the bank's intention that Tier 1 capital will not fall below 7.9%. The bank's average three-year ROA is 1.11%. **The Director approved this on February 26, 1999, under Delegated Authority.**

DIVISION OF CREDIT UNIONS

1.) **TAPER LOCK CREDIT UNION, MISHAWAKA, ST. JOSEPH COUNTY, INDIANA**

A request for approval of a Petition for Approval of Proposed Amendment to the Articles of Incorporation has been filed pursuant to IC 28-7-1-10 (which allows a credit union to add one or more qualified groups to its field of membership) this amendment would place the following organizations into the field of membership of the credit union:

Dometic Corporation – LaGrange – 650 members

Wooden Peel – Bremen – 7 members

The Director approved this on February 11, 1999, under Delegated Authority.

2.) **DOW EMPLOYEES CREDIT UNION, INDIANAPOLIS, MARION COUNTY, INDIANA**

A request for approval of a Petition for Approval of Proposed Amendment to the Articles of Incorporation has been filed pursuant to IC 28-7-1-10 (which allows a credit union to add one or more qualified groups to its field of membership) this amendment would place the following organizations into the field of membership of the credit union:

American Credit Exchange – Indianapolis – 1 member

United First Federal Financial Corporation – Carmel – 1 member

Association for Professional Career Development – Carmel – 4 members

The College Network – Indianapolis – 110 members

The Director approved this on February 16, 1999, under Delegated Authority.

3.) **INDIANA TELCO CREDIT UNION, INDIANAPOLIS, MARION COUNTY, INDIANA**

A request for approval of a Petition for Approval of Proposed Amendment to the Articles of

Incorporation has been filed pursuant to IC 28-7-1-10 (which allows a credit union to add one or more qualified groups to its field of membership) this amendment would place the following organizations into the field of membership of the credit union:

QSP Printing and Copying – Carmel – 8 members

Michael Reece & Associates, Inc. – Indianapolis – 20 members

J.D. Byrider Systems, Inc. – Indianapolis – 178 members

Earth Tech – Indianapolis – 20 members

Inacom – Indianapolis – 750 members

Galahad's Café & Spirits – Indianapolis – 30 members

J. R. Helms & Associates, P.C. – Indianapolis – 3 members

Bel Hybrids & Magnetics, Inc. – Indianapolis – 18 members

The Director approved this on February 25, 1999, under Delegated Authority.

CONSUMER CREDIT DIVISION

- 1.) J. Beety, Ltd. d/b/a Bee Check Advance is requesting a consumer loan license. Applicant is based in Rochester, IN. They will be making single-pay, less than 30 days "payday" loans. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- 2.) Corner Stand Financial, Inc. d/b/a Freddie's Paycheck Advance is requesting a consumer loan license. Applicant is based in Kendallville, IN. They will be making single-pay, short-term loans less than 30 days (payday) loans. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- 3.) Dunes Rexall Drugs, Inc. is requesting a consumer loan license. Applicant is based in Gary, IN and is currently licensed as a check casher #008-039. They will be making single-pay, short-term loans, less than 30 days "payday" loans. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- 4.) HomeAlliance Mortgage Company is requesting a consumer loan license. Applicant is based in Louisville, KY. They will be making second mortgage loans. They will not be servicing their loans. Loans will be closed by title company/attorneys. They currently operate in 16 states. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**

- 5.) HomeAmerican Credit, Inc. d/b/a Upland Mortgage is requesting a consumer loan license. Applicant is based in Cynwyd, PA. They will be making second mortgage loans. They will not be servicing their loans. operate in 19 states. Applicant is recommended for approval. **The Director approved this**
- 6.) Applicant is based in Bloomfield, NJ. They will be making second mortgage loans. They will operate in five states. Applicant is recommended for approval. **The Director approved this**
- 7.) Indianapolis, IN. They will be making single-pay, short-term loans less than 30 days (payday loans). They have also applied for a approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- Payday Everyday Loans, Inc. is requesting a check Indianapolis, IN. They will be cashing all types of checks. All references are in order. Applicant is recommended for approval. **under Delegated Authority.**
- 9.) PNC Mortgage Corp. of America is requesting a consumer loan license. Applicant is based in Vernon Hills, IL and is a subsidiary of PNC Bank. They will be making second mortgage Loans will be closed by a title company. They currently operate in 44 states. Applicant is recommended for approval. **approved this on March 3, 1999, under Delegated Authority.**
- 10.) Stuart-Wright Mortgage, Inc. is requesting a consumer loan license. Applicant is based in loans. Loans will be closed by title company/attorneys. They currently operate in 26 states. Applicant is recommended for approval. **under Delegated Authority.**
- 11.) Vintage Financial, Inc. is requesting a consumer loan license. Applicant is based in Laporte,

Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**

- 12.) Pawn-Shoppe Inc. is requesting a check casher license. Applicant is based in Mooresville, IN and have also applied for a pawnbroking and loan license. They will be cashing all types of checks. All references are in order. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- 13.) Pawn-Shoppe Inc. is requesting a consumer loan license. Applicant is based in Mooresville, IN and has also applied for a pawnbroker and check casher license. They will be making single-pay, short-term loans less than 30 days (payday) loans. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- 14.) Pawn-Shoppe Inc. is requesting a pawnbroker license. Applicant is based in Mooresville, IN. All references are in order and an interview was held with President William McLaughlin, Manager Gordon Page, Field Supervisor Bane and Division Supervisor Tarpey. The closest pawn shop is 15 miles away. Principals of the business are currently registered with the DFI under Motorama Used Cars (999-13112). Exams of this entity have been satisfactory. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**
- 15.) Eldredge Corporation is requesting approval as third party administrator for a Guaranteed Auto Protection (GAP) Program. Applicant is based in Westfield, IN. There is a contractual liability policy issued by Balboa Insurance Company. The initial dealer requesting approval is Transmission Builders Federal CU. All future dealers will agree to abide by the same terms as those approved. There will be a 60-day free look deductible covered up to \$1,000, and a maximum charge to the customer will not exceed \$225. Approximately 402 GAP agreements were issued prior to approval. These customers will be given an option of a full refund or continuing in the program. Applicant is recommended for approval. **The Director approved this on March 3, 1999, under Delegated Authority.**

Minutes of Member's Meeting

March 11, 1999

11

ATTEST:

Norman Lowery, Chairman

J. Philip Goddard, Secretary